

Government of the District of Columbia
Department of Insurance and Securities Regulation



Lawrence H. Mirel
Commissioner

March 18, 2003

The Honorable Steve B. Larsen
Commissioner of Insurance
Maryland Insurance Administration
525 Saint Paul Place
Baltimore, MD 21202-2272

Re: (1) Your Order Disapproving the Proposed Conversion of CareFirst, Inc. and
CareFirst of Maryland, Inc. to For-Profit Status and the Acquisition of
CareFirst, Inc. by WellPoint Health Networks Inc.

(2) Maryland House Bill 1179

Dear Commissioner Larsen:

I have received and reviewed a copy of MIA Order No. 2003-02-032 which you issued on March 5, 2003. In conclusions 2 and 3 of the Order, you find that you have statutory jurisdiction to approve or disapprove the proposed transaction pursuant to Md. Code Ann., State Govt. § 6.5-307 as it applies to the operations of Group Hospitalization and Medical Services, Inc. ("GHMSI") in Maryland, and pursuant to Md. Code Ann., Ins. § 14-133 as to GHMSI as a subsidiary or affiliate of CareFirst, Inc. Your Order disapproves the transaction as to GHMSI on both jurisdictional grounds cited.

As you know, GHMSI is domiciled in the District of Columbia and is regulated here as a domestic hospital and medical service corporation. Please be advised that I disagree with your conclusions regarding Maryland's jurisdiction over GHMSI in this matter.

I also note that on page 26 of your Report reference is made to an analysis of the relative contributions of CareFirst of Maryland, Inc. ("BCBS-MD") and GHMSI to CareFirst, Inc. based on a January 1998 "snapshot," and on a similar analysis in March 2000 as to the relative contributions of CareFirst, Inc. and BlueCross BlueShield Delaware ("BCBSD"), referred to as the "new snapshot." While you do not specifically state in the Report that you consider the results of those "snapshots" to be binding or determinative of the relative allocation of the overall value of CareFirst, Inc. as between BCBS-MD, GHMSI, and BCBSD, the implication is that such is your position. Please be advised that I strongly disagree with that position or conclusion.

The Honorable Steve B. Larsen
Commissioner of Insurance
Maryland Insurance Administration
March 18, 2003
Page 2

Although this letter deals only with the subject matters of jurisdiction and allocation, that should not be construed as my not having concerns with other subject matters addressed in your Order and the Report which accompanied it. We are still in the process of analyzing your report, and if we have additional areas of concern or disagreement they will be addressed at a later, appropriate time.

In a related matter, I have just been made aware that a bill was introduced in the Maryland Legislature last Thursday, House Bill 1179, which would reform Nonprofit Health Service Plans operating in Maryland and which is specifically aimed at CareFirst, Inc. and BCBS-MD. I have not yet had a chance to study the proposed legislation in detail, but I am very concerned about the bill's purported effect on GHMSI. While a business affiliation now exists among CareFirst, Inc., BCBS-MD, and GHMSI, and while GHMSI is licensed to do business in Maryland, the fact remains that GHMSI is domiciled in the District of Columbia and, therefore, subject to the primary regulatory responsibility of my department.

Any Maryland legislation which, for example, does not recognize GHMSI's or the District of Columbia's continuing right to an agreed proportion of representation on CareFirst Inc.'s Board of Directors or which proposes to dictate any change in the way in which GHMSI is required to conduct its business, would be considered by the DISR to be a breach of the existing CareFirst reorganization agreement and a usurpation by Maryland of the District of Columbia's primary regulatory authority over GHMSI. It is the responsibility of my office to take all actions necessary to protect the best interests of GHMSI's subscribers and the District of Columbia insurance-buying public, and to preserve the DISR's role and responsibility as primary regulator of GHMSI.

Sincerely,

Lawrence Mirel

cc: Arabella Teal, Interim Corporation Counsel